
**Economic Development,
Agriculture & Trade Committee**

HB 1575

Brief Description: Providing a business and occupation tax credit for certain small business purchases.

Sponsors: Representatives Morrell, McDonald, Wallace, Campbell, Springer, Kilmer, Blake, Kristiansen, Ericks, Flannigan, Linville, Pettigrew, P. Sullivan, Conway, Holmquist, Hinkle, Williams, Lantz, O'Brien, Kenney and Condotta.

Brief Summary of Bill

- Creates a business and occupation (B&O) tax credit for investments in computer equipment by small businesses.

Hearing Date: 2/15/05

Staff: Tracey Taylor (786-7196).

Background:

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2003, B&O tax collection totaled \$1.923 billion which represented approximately 17 percent of state revenue sources within the state general fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise Tax Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services. Credits are amounts that have been paid to the DOR which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O

tax due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit and the small business B&O tax credit.

Business and occupation tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

Summary of Bill:

A B&O tax credit is authorized for investments in computer equipment by small businesses. A small business is defined as a businesses with 50 or fewer employees. The computer equipment must be used exclusively for business purposes. Computer equipment means personal computers, computer software preinstalled on personal computers, keyboards, monitors, printers and mouse devices. It may also include computer peripherals or accessories that operate outside of a personal computer when it is bundled together with the personal computer and sold by the seller as a single product or piece of merchandise.

The B&O tax credit is equal to ten percent of the purchase price of the computer equipment; however the credit may not exceed \$100 for each purchase of computer equipment. The credit is available for the same calendar year as the year in which the equipment is purchased. The credit may not be carried over and no refunds may be granted. The credits are available on a first-come basis and the total credits granted statewide for computer purchases to small businesses may not exceed \$20 million per year.

No application is necessary to claim this credit. If a business files its CETR electronically, then any paperwork required by the DOR for this credit must also be filed electronically.

If at any time the DOR finds that a business is not eligible for this tax credit, the amount of taxes against which the credit was claimed is immediately due and payment with interest.

Appropriation: None.

Fiscal Note: Requested on January 31, 2005.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.